EVERCORE ISI

Flash Note **Global Automotive**

January 31, 2019

TESLA MOTORS, INC.
TSLA | $308.77
In Line | TARGET PRICE: $330.00
Commentary

Arndt Ellinghorst
+44 207 847 3501
arndt.ellinghorst@evercoreisi.com
Max Yoward
+44 207 847 3505
max.yoward@evercoreisi.com
Chris McNally
+44 207 847 3502
chris.mcnally@evercoreisi.com

Leaving Intensive Care… Waiting for Revenues to Ramp

PM Summary - As always, something for the bulls and something for the bears in the TSLA Q4 report/conference call (definitely less fireworks this time). Today, the bull/bear debate will be over the '19 outlook/cash generation while twitter will be mad with conspiracy theories over the CFO retiring. We would expect this tug of war to be won by the bears this time (-5% after-hrs on CFO retirement) and Tesla down on the open.

No recommendation change ($330 PT, In-Line) - Investors should stay on side-line to see how maturing S/X and Model 3 mix dilution will play out. We also fear that increasing supply of more competitive EV product from peers will shape the industry (please take a look at our latest VW MEB report **here**). As the EV market matures, the exclusiveness of the Tesla multiple might evaporate. We're not suggesting that Tesla as a brand or company necessarily will struggle but we do expect the severe valuation gap to other leading/premium OEMs may converge over time. Our $330 PT represents ~7% upside from yesterday's share price and we doubt many investors would willingly take on the volatility that comes with the stock for this degree of upside. For the risk/reward to get more interesting, we would need to apply our TP methodology to '22 metrics, when forecasts can include a contribution from the Model Y ("*targeted first production*" Q4 '20 but not sold/produced in volume until 2021/2022).

For the Bears (should outweigh bull points):

- 2019 delivery estimates (and implied Rev) disappointed by ~5-7%. 7k/wk production at Freemont will be achieved "*by the end of the yr.*" It appears the company no longer even targets 10k/wk Freemont as the new target is 500k (10k/wk) by "*sometime between Q4 and Q2 '20*" through a combined Freemont/Shanghai (7k + 3k respectively).
- CFO (Deepak Ahuja) to retire and to be replaced by Zack Kirkhorn (previously VP Finance), but Zack's age (34) and lack of work experience outside TSLA (graduated HBS six years ago) will raise eyebrows for whether he is fit for task.
- Model S/X – "*slight decline YoY*" given removal of 75Kwh option (expected).

For the Bulls (Q4 bright side, questions remain medium-term capital strategy):

- Cash is King (especially when you're a stock which investors either think is going to $0 or $4,000) – TSLA ended the year with $3.7Bn cash on hand and $910MM Q4 FCF (both ~$300MM better than consensus on lower capex). In the statement and on the call they discussed "*sufficient cash on hand to comfortably settle in cash our convertible bond that will mature in March 2019*".
- Q4 was another relatively solid EBIT Q ($414MM Income from Ops vs our/cons $359MM/ $344MM). Pls see Fig. 1 for full Q4 reported vs EvrISI/Consensus.
- Model 3 consumers trading up? - 60% of trade-ins coming from non-premium.

…and somewhere in between

- Gigafactory Shanghai is "*initially aiming for 3k Model 3s/week…sometime between Q4 of 2019 and Q2 of 2020.*" Investors will clearly need to see it to believe it.
- Model Y ("*design completed*"), once again, was said to skip a "*product reveal*" but "*this year we will start tooling…to achieve volume production by the end of '20*".

2019 Outlook vs our Model

- 360-400k vehicles (We assume this is <300k Model 3s or <6k/wk avg production, and remainder is Model X/S) – this was lower than our/consensus 402k/395k and should lead to Rev estimates being revised ~5-7% lower.
- Model 3 non-GAAP GM target of 25% at "*some point in 2019*" – same "*25% target*" but timing consistent with our more conservative 22% FY'19 assumption (assuming low 20s '18 exit rate, but lower priced Model 3 mix for FY19).
- "*We are expecting to have + GAAP net income and positive FCF in every Q beyond Q1 2019*" – compares to our/cons $600/$900MM '19 FCF.

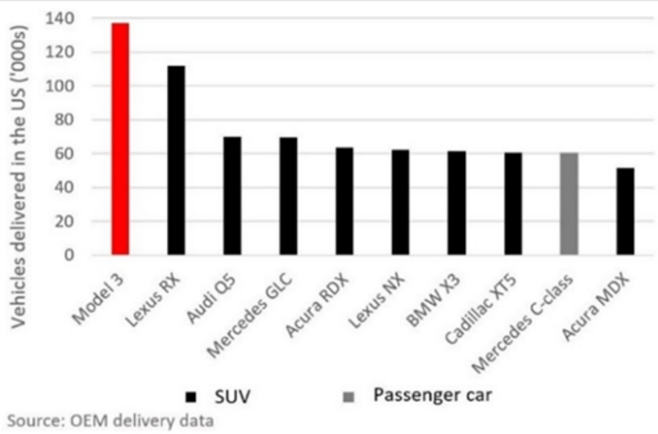
Elon-O-meter (on the conf call) – While clearly a more "*normal*" call than the Q2 fiasco, Elon continues to sound noticeably somber/defense/awkward; including at one point off-the-cuff "*350-500k Model 3s, something like that this year*" when the official total delivery guidance is only 360-400k. *We miss inspirational Elon.*

Figure 1: TSLA Reported vs EvrISIe/Consensus

TSLA Summary	17Q4	18Q4	EvrISIe	Cons	Beat/(Miss) vs cons
	$ (Mn)	$ (Mn)	$ (Mn)	$ (Mn)	
Total Revenues	3,288	7,226	6,806	7,038	2.7%
YoY, %		*119.7%*	*107.0%*	*114.0%*	
Gross Profit	439	1,443	1,535	1,472	-2.0%
Margin, %	*13.3%*	*20.0%*	*22.6%*	*20.9%*	
EBIT	-598	414	360	344	20.3%
Margin, %	*-18.2%*	*5.7%*	*5.3%*	*4.9%*	
Net Income	-771	139	185	195	-28.5%
EPS (non-GAAP)	-3.05	1.93	2.21	2.25	
FCF	-277	910	872	586	55.2%
Capex	-787	-365	-644	-647	-43.6%
Model S/X Deliveries	28,425	27,907	27,708	27,589	1.2%
Model 3 Deliveries	1,542	63,359	60,066	63,094	0.4%

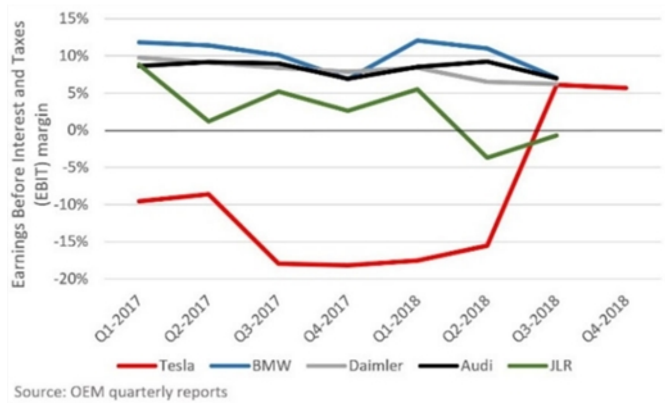
Source: Company Data, Factset, Evercore ISI Research

Figure 2: Premium vehicle sales in the US (2018)



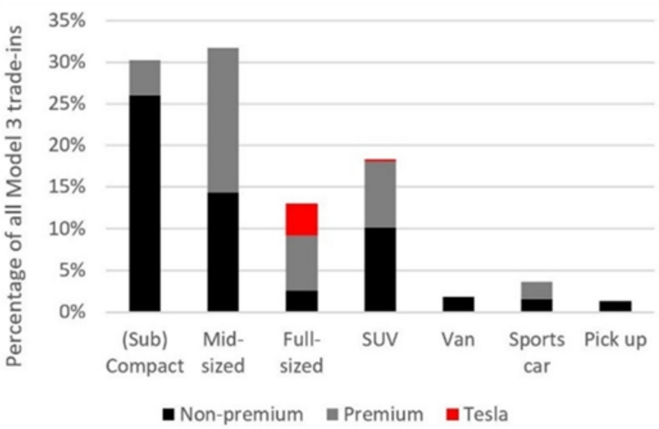
Source: TSLA

Figure 3: Operating (EBIT) margin of premium carmakers



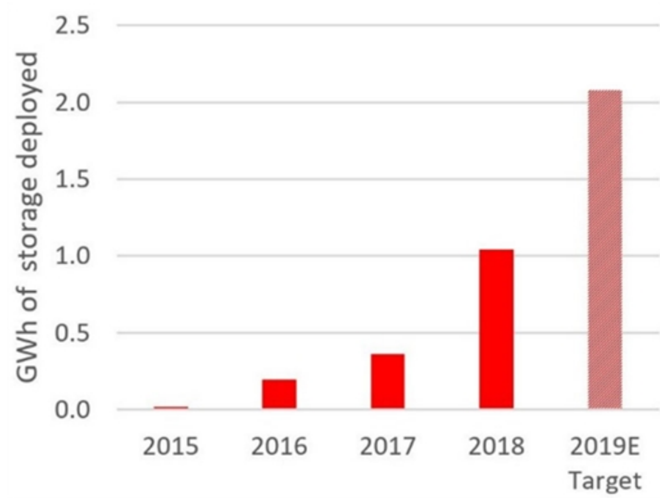
Source: TSLA

Figure 4: Model 3 trade-ins by vehicle type



Source: TSLA

Figure 5: GWh of energy storage deployed



Source: TSLA

VALUATION METHODOLOGY

In general, we derive our target prices using industrial multiples, Sum of the Parts, EV/EBITDA and P/E, either in combination or isolation. The exceptions are Ferrari (RACE) and Tesla (TSLA) where we also use DCF models. We consider automotive valuations in a global context as well as relative to companies' own histories. We assess future earnings growth, operating margins, free cash flow generation and returns on capital employed when determining whether a company is deserving of higher or lower multiples.

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Outperform- the total forecasted return is expected to be greater than the expected total return of the analyst's coverage universe
In Line- the total forecasted return is expected to be in line with the expected total return of the analyst's universe
Underperform- the total forecasted return is expected to be less than the expected total return of the analyst's universe
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Strong Buy- Return > 20%
Buy- Return 10% to 20%
Neutral - Return 0% to 10%
Cautious- Return -10% to 0%
Sell- Return< -10%

For disclosure purposes, ISI Group and ISI UK ratings were viewed as follows: Strong Buy and Buy equate to Buy, Neutral equates to Hold, and Cautious and Sell equate to Sell.

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Overweight- the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.
Equal-Weight- the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.
Underweight -the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.
Suspended- the company rating, target price and earnings estimates have been temporarily suspended.

For disclosure purposes, Evercore Group's prior "Overweight," "Equal-Weight" and "Underweight" ratings were viewed as "Buy," "Hold" and "Sell," respectively.

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Short- the stock is a negative holding in the model portfolio; the total forecasted return is expected to be less than 0%.
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Stocks included in the model portfolio will be weighted from 0 to 100% for Long and 0 to -100% for Short. A stock's weight in the portfolio reflects the analyst's degree of conviction in the stock's rating relative to other stocks in the portfolio. The model portfolio may also include a cash component. At any given time the aggregate weight of the stocks included in the portfolio and the cash component must equal100%.

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Evercore ISI rating (as of 31 January 2019)

Coverage Universe			**Investment Banking Services I Past 12 Months**		
Ratings	**Count**	**Pct.**	**Ratings**	**Count**	**Pct.**
Buy	369	52	Buy	236	64
Hold	274	39	Hold	132	48
Sell	41	6	Sell	21	51
Coverage Suspended	18	3	Coverage Suspended	15	83
Rating Suspended	5	1	Rating Suspended	1	20

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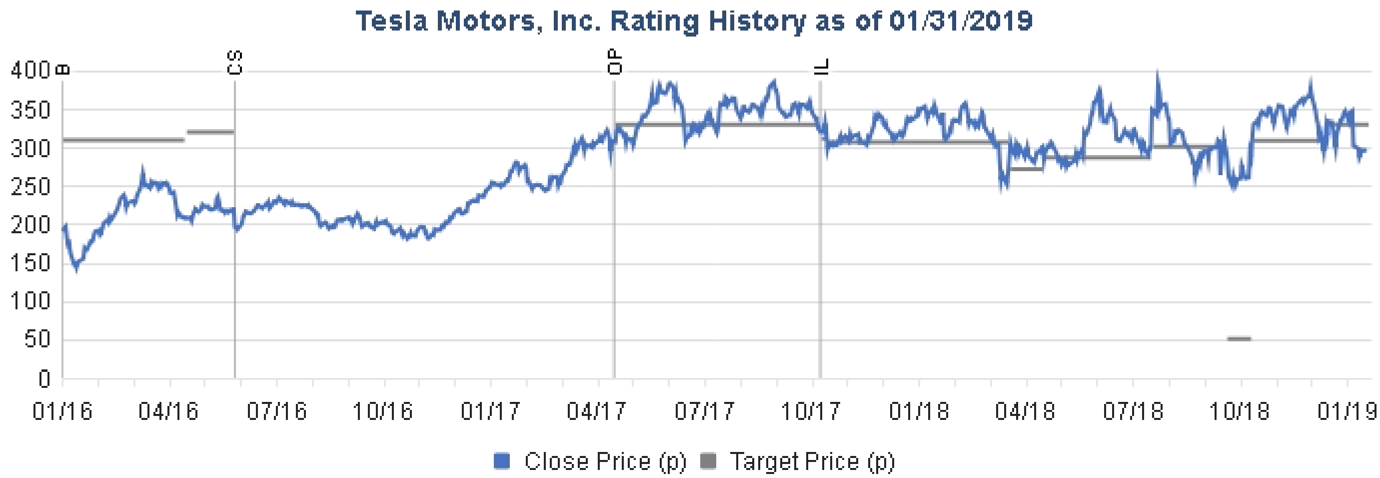
Price Charts



Ratings Key

B	Buy	OP	Outperform	L	Long	CS	Coverage Suspended
H	Hold	IL	In Line	NP	No Position	RS	Rating Suspended
S	Sell	UP	Underperform	S	Short		

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